

## Updated Thoughts on a Live Case Study

The Maggi Economic Castle has been attacked. As I write this, Maggi sales in India have been withdrawn. And UK and Singapore Labs have sent Maggi imports from India for testing for MSG and Lead.

We are witnessing a wonderful live case on the resilience of a moat. This is a historic event which will be written about years from now in business school case studies.

Warren Buffett has written that “Franchises can tolerate mismanagement. Inept managers may diminish a franchise’s profitability, but they cannot inflict mortal damage.”

And Tom Russo calls a great business as one which has the “capacity to suffer.”

Does Maggi have the capacity to suffer? What kinds of data points would one need to answer these questions:

When the dust settles (if it settles), then:

1. Will the size of instant noodle market in India be larger or smaller than it size just before Maggi fell into a Soup?
2. Will Maggi’s market share be larger or smaller than her market share before she landed in a jam?
3. Would Nestle need to spend more money on fixed assets and working capital to defend its market share?
4. Would Nestle have to spend more on Advertising to gain back its reputation? Would it be appropriate for value investors to treat ad spent on Maggi as an investment instead of expense?
5. Would owner earnings generated from each Maggi be higher or

lower than before?

6. Would Nestle have to raise prices to compensate for better quality ingredients?
7. If yes, then would that result in shrinkage of market size and its market share?
8. Would Nestle India have to pay significant penalties and fines to get out of this mess?
9. If Maggi is guilty, would Indians forgive her?
10. Is this a strong signal to MNC's that, in this age of instant information dissemination, they can no longer have different quality standards for their products sold in India?
11. Are there other cockroaches in the kitchen?

As you can see, I only have questions at this time. But no answers.

Disclosure: No Position.